



Tennessee Consolidated Retirement System (TCRS)

Pension Options for Local Governments

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Local Government TCRS Options

Important Points about These Options

- **Nothing in these options applies to State Employees, K-12 Teachers, or Higher Education Employees**
- **Nothing in these options applies to any current retirees of TCRS**
- **Nothing in these options applies to any local government employee hired prior to the effective date of passage**
- **No local government entity is required to make any changes**
- **These are options and are effective only upon adoption by the local government entity**



Current Local Government Plan

Plan 1 - Current TCRS political subdivision pension plan

- Provides pension multiplier of 1.5% for retirement at age 60 or after 30 years of service
- Early retirement available with reduction at age 55 or after 25 years of service
- Employers may require either 0% or 5% employee contribution and may select annual cost of living adjustment (COLA) with 3% cap or no COLA
- All current local government employees remain in Plan 1 with no changes, even if local government adopts a new plan for those new hires after the date of passage



Additional Options for Plan 1

Local government entities may adopt these options for new hires effective after the date of passage:

- **Employers may adopt an additional contributory option for new employees at 2.5% of salary. With this additional options, the employer may require new hires to contribute 0%, 2.5%, or 5% of salary to the plan**
- **Local government employers may (for new hires only) freeze, suspend, or modify benefits, employee contributions, plan terms, and design prospectively (i.e., for future service) for employees hired after the date of passage. Accrued benefits will not be affected.**



Additional Options for Plan 1

Normal Cost to local government entity (as a percent of payroll):

	<u>0% Employee</u>		<u>2.5% Employee</u>		<u>5.0% Employee</u>	
	<u>COLA</u>	<u>NO COLA</u>	<u>COLA</u>	<u>NO COLA</u>	<u>COLA</u>	<u>NO COLA</u>
Plan 1	11.2%	9.1%	8.8%	6.7%	6.5%	4.4%

This estimate of Normal Cost is based on current TCRS annual earnings assumption of 7.5 %. Use of a lower earnings assumption will result in a higher Normal Cost. Normal cost is the portion of compensation (expressed as a percentage of payroll) that is being deferred in the current accounting year. This calculation may also be increased by multiple factors such as market losses in investments, future salary increases in excess of assumptions, and is not a guarantee of costs for a particular entity. Normal cost of a particular local government entity can only be determined by an actuarial study.



Local Government Option Plan 2

Plan 2 – Modified Defined Benefit Pension Plan

- Provides pension multiplier of 1.4% for retirement age of 65 for general employees with vesting after 5 years of service or Rule of 90
- Early retirement available at age 60 with 5 years or Rule of 80, at a reduced benefit using updated, full unsubsidized actuarial discount factors. (If elected by a local government, public safety benefits remain unchanged.)
- Maximum annual pension benefit of \$80,000 adjusted for CPI
- Employers may elect annual COLA capped at 3% or no COLA provision
- Employers may require employee contributions of 0%, 2.5%, or 5% of salary
- Local government employers may (for employees hired after the effective date) freeze, suspend, or modify benefits, employee contributions, plan terms, and design prospectively (i.e., for future service) for employees hired after the effective date of passage. Accrued benefits will not be affected.



Local Government Option Plan 2

Normal Cost* to local government entity employer (as a percent of payroll):

	<u>0% Employee</u>		<u>2.5% Employee</u>		<u>5.0% Employee</u>	
	<u>COLA</u>	<u>NO COLA</u>	<u>COLA</u>	<u>NO COLA</u>	<u>COLA</u>	<u>NO COLA</u>
Plan 2	8.2%	6.8%	5.8%	4.4%	3.4%	2.0%

***See definition of Normal Cost on Slide 5**



Local Government Option Plan 3

Plan 3 – Local Government Hybrid plan – Defined Benefit Plan plus Defined Contribution Plan)

- Provides the same Defined Benefit Pension Plan Provisions as Plan 2, except pension multiplier is 1%
- Employer must provide some form of defined contribution (DC) plan, which can be satisfied with a supplemental deferred compensation plan or any other qualified defined contribution plan.
- State will offer its 401(k) plan and other DC options to local governments but local governments may procure DC plan from any source
- Maximum employer contribution to the DC component would be limited to 7% of pay



Local Government Option Plan 3

Normal Cost* to local government entity employer of defined benefit plan portion only (as a percent of payroll):

	<u>0% Employee COLA</u>	<u>2.5% Employee COLA</u>	<u>5.0% Employee COLA</u>
Plan 3	5.9%	3.5%	1.1%

***See definition of Normal Cost on Slide 5**



Local Government Option Plan 4

Plan 4 – Defined Contribution Plan Option

- **State will offer to local government entities two options: a 401(k) plan and its supplemental 457 plan as employer options**
- **Employers are free to design any benefit and contribution level available under the third-party administrator's recordkeeping system**
- **Combined employer and employee contributions are subject to IRS limits**
- **State will offer its defined contribution plans to local governments, but local government may obtain defined contribution plan from any source**



Gross Replacement Income Plan 1

Plan 1 - Current TCRS Defined Benefit Plan

Plan Provisions

Eligibility to Retire	Age 60 and vested or 30 years of service
Benefit Formula	1.575% of AFC times years of service

Gross Replacement Income based on 35 years of Service at Age 65

	<u>\$30,000 AFC</u>		<u>\$50,000 AFC</u>		<u>\$70,000 AFC</u>	
	<u>Benefit</u>	<u>%</u>	<u>Benefit</u>	<u>%</u>	<u>Benefit</u>	<u>%</u>
TCRS	\$16,538	51.0%	\$27,563	51.0%	\$39,561	52.3%
Social Security	13,980	43.1%	20,040	37.1%	23,448	31.0%
Total	\$30,518	94.2%	\$47,603	88.2%	\$63,009	83.3%
@ 75% Social Security	\$27,023	90.1%	\$42,593	85.2%	\$57,147	81.6%



Gross Replacement Income Plan 2

Plan 2 – Modified Defined Benefit Plan with 1.4% Annual Service Accrual

Plan Provisions

Eligibility to Retire	Age 65 and vested or Rule of 90
Benefit Formula	1.4% of AFC times years of service
	Maximum benefit capped at \$80,000

Gross Replacement Income based on 35 years of Service

	<u>\$30,000 AFC</u>		<u>\$50,000 AFC</u>		<u>\$70,000 AFC</u>	
	<u>Benefit</u>	<u>%</u>	<u>Benefit</u>	<u>%</u>	<u>Benefit</u>	<u>%</u>
TCRS	\$14,700	45.4%	\$24,500	45.4%	\$34,300	45.4%
Social Security	13,980	43.1%	20,040	37.1%	23,448	31.0%
Total	\$28,680	88.5%	\$44,540	82.5%	\$57,748	76.4%
 @ 75% Social Security	 \$25,185	 83.9%	 \$39,530	 79.1%	 \$51,886	 74.1%



Gross Replacement Income Plan 3

Plan 3 – Local Government Hybrid Plan (Defined Benefit Plan with 1% Annual Service Accrual plus and Defined Contribution Plan)

Plan Provisions

Eligibility to Retire	Age 65 and vested or Rule of 90
Benefit Formula	1.0% of AFC times years of service

Gross Replacement Income based on 35 years of Service

	\$30,000 AFC		\$50,000 AFC		\$70,000 AFC	
	Benefit	%	Benefit	%	Benefit	%
DC Annuity @ 4% Contribution Level	\$ 5,074	15.7%	\$ 8,456	15.7%	\$11,838	15.7%
TCRS	10,500	32.4%	17,500	32.4%	24,500	32.4%
Social Security	13,980	43.1%	20,040	37.1%	23,448	31.0%
Total	\$29,554	91.2%	\$45,996	85.2%	\$59,786	85.4%
@ 75% Social Security	\$26,059	86.9%	\$40,986	82.0%	\$53,924	77.0%



Gross Replacement Income Plan 4

Plan 4 - Defined Contribution Plan

Gross Replacement Income based on 35 years of Service

2 % Employee and 2 % Employer Contributions

	\$30,000 AFC		\$50,000 AFC		\$70,000 AFC	
	Benefit	%	Benefit	%	Benefit	%
DC Annuity	\$ 5,074	15.7%	\$ 8,456	15.7%	\$11,838	15.7%
Social Security	13,980	43.1%	20,040	37.1%	23,448	31.0%
Total	\$19,054	58.8%	\$28,496	52.8%	\$35,286	46.7%

5 % Employee and 5 % Employer Contributions

	\$30,000 AFC		\$50,000 AFC		\$70,000 AFC	
	Benefit	%	Benefit	%	Benefit	%
DC Annuity	\$12,685	39.2%	\$21,139	39.1%	\$29,595	39.1%
Social Security	13,980	43.1%	20,040	37.1%	23,448	31.0%
Total	\$26,665	82.3%	\$41,179	76.3%	\$53,043	70.2%



Next Steps...

A local government entity must pass a Resolution in order to adopt any of the plan options.

TCRS will provide guidance and documentation in this process.